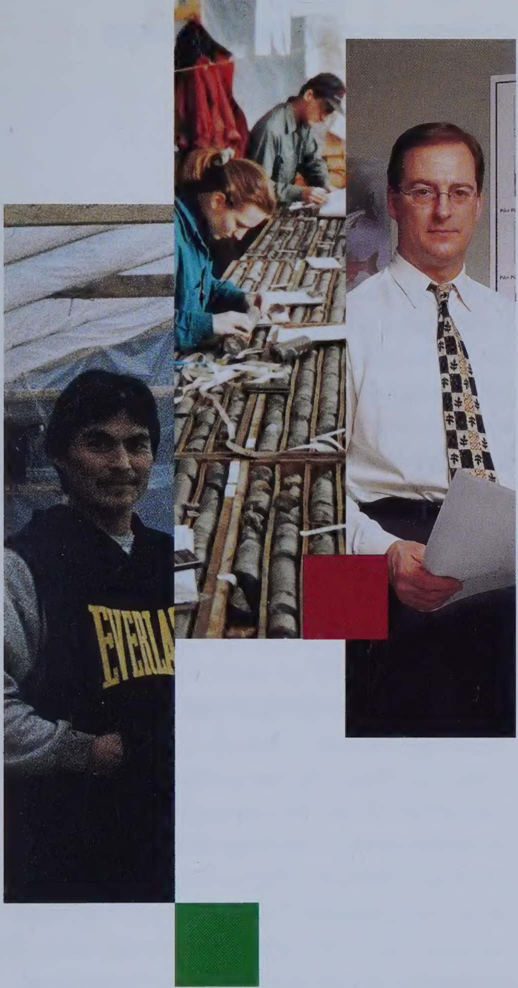
MISTY'S MODERN MINING TEAM IS WORKING HARD TO MAKE THE GLOBALLY SIGNIFICANT HARMONY GOLD PROJECT A SHOWCASE OF ENVIRONMENTALLY RESPONSIBLE MINERAL RESOURCE DEVELOPMENT. ■ COMPREHENSIVE EXPLORATION AND PROJECT PLANNING ARE ONGOING. ■ SUCCESSFUL COMPLETION OF THE HARMONY GOLD PROJECT PREFEASIBILITY STUDY IS EXPECTED TO LEAD TO AN APPLICATION FOR MINE DEVELOPMENT CERTIFICATION WHICH WILL INITIATE THE OPEN ENVIRONMENTAL REVIEW OF THE HARMONY PROJECT. ■ ITS SUCCESSFUL COMPLETION WOULD PROVIDE FOR THE PERMITTING OF A SIGNIFICANT AND SOUNDLY PLANNED MINE DEVELOPMENT THAT UTILIZES PROVEN MINING AND MILLING METHODS.

1996 ACHIEVEMENTS

- Assembled a skilled team of employees and consultants to explore and advance the Harmony Gold Project.
- Continued collection of environmental monitoring data.
- Commenced systematic and staged exploration and comprehensive evaluation of the Project.
- Completed geochemical and airborne geophysical surveys over the 440 square kilometre claim holding.
- Completed 34,627 metres of core drilling in 147 holes to delineate the Specogna Deposit.
- Commenced a wide spectrum of scoping studies for the planning of project options.

1997 OBJECTIVES

- Initiate dialogue with stakeholders and citizens in the region.
- Complete all scoping studies to define Project options.
- Commence a comprehensive Harmony Gold Project Prefeasibility Study including drilling for infill, geotechnical, environmental and bulk sample purposes.
- Commence extensive environmental and socioeconomic studies to ensure requirements of the Federal/Provincial project review processes will be met.
- Drill test for bonanza gold deposits below the Specogna Deposit and explore new deposit targets outside of the Specogna Deposit.



CORPORATE PROFILE

Misty Mountain Gold Limited is focused on the responsible exploration and development of its 100% owned Harmony Gold Property located on Graham Island, British Columbia. The extensive claim holding covers one of the world's premier epithermal gold systems including the Specogna Deposit which hosts a geological resource of over three million ounces of gold.

Misty has assembled a skilled team of multi-disciplinary professionals with an excellent performance record to explore and develop the Project. The team has a clear strategy which combines technical strength with sound environmental stewardship. This strategy will provide a strong foundation for the Company's involvement in the new Federal/Provincial harmonized environmental review process. The process will fully engage all stakeholders in a progressive dialogue thus ensuring issues are fully addressed and that local community benefits are maximized. It is a formula for the timely success of the Harmony Gold Project and substantial growth in shareholder value.

Systematic and comprehensive programs are underway to examine responsible mine development options for the Specogna Deposit and explore the extensive gold system. Continued successful results, together with a cooperative approach to the environmental review process, will lead to the engineering and permitting of a substantial long-life gold mine utilizing proven mining and milling methods.

Common shares of Misty Mountain Gold Limited trade in Canada on The Toronto and Vancouver Stock Exchanges under the symbol MGL and are quoted in the United States on NASDAQ (MGLCF). Shareholders are located in Canada, Australia, United States and Europe.

The completion of 34,627 metres of core drilling in 147 holes provides a firm foundation for this year's detailed mine development studies.

REPORT TO SHAREHOLDERS

In addition to the Specogna Deposit that contains over three million ounces of gold, two high priority exploration targets are being prepared for drilling this season.

INTRODUCTION

During 1996, Misty Mountain Gold Limited significantly advanced its 100% owned Harmony Gold Project towards the goal of having sound environmental stewardship lead to successful permitting of a substantial gold mine development. This was achieved through exploration and pre-development expenditures totalling $5.84 million on a systematic core drilling program of the Specogna Deposit and the advancement of a wide spectrum of scoping study options to define the Harmony Gold Project. Positive program results are indicating that in the months ahead an economically attractive gold mine proposal can be advanced for the Specogna Deposit which will mitigate environmental risks and maximize benefits for communities in the region.

LOCATION AND INFRASTRUCTURE

The Harmony Gold Project is located on Graham Island, the northern main island of the Queen Charlotte Islands – Haida Gwaii, British Columbia. The Islands are 88 kilometres west of the mainland, 160 kilometres southwest of Prince Rupert, and 900 kilometres northwest of Vancouver.

The Specogna Deposit is located near the centre of Graham Island, 18 kilometres south of the town of Port Clements in an area of gently rolling hills at an elevation of 215 metres above sea level. Climate is typical of British Columbia's maritime areas with precipitation averaging 170 centimetres per year. Temperatures average 2°C for the coldest month and 14°C for the warmest month.

Graham Island is accessed by commercial ferries, barges and ships and daily commercial airline service. Access to the Specogna Deposit is by vehicle on existing industrial roads from the towns of Port Clements, Masset and Queen Charlotte City.

The Harmony Gold Property lies in an area of Crown land where intensive industrial forestry is ongoing.

SOCIOECONOMIC SETTING

The total population of the Queen Charlotte Islands is 6,000, of which approximately one-quarter are Haida First Nations people. The community of Masset, at the northern end of Graham Island is the largest town (1,500 people) and Queen Charlotte City (1,000 people) is the administrative centre. Port Clements (600 people), the closest town to the site, is predominantly a forestry town and the commercial airport is located at Sandspit (600 people).

Forestry is the main industry on the Islands and the largest operators are MacMillan Bloedel (Graham Island) and TimberWest Forest Products (Moresby Island). Fishing is important to commercial and recreational operators and is a significant traditional activity of the Haida. Government and tourism services account for the other main business activities.

Recently, both the forestry and fishing industries on Graham Island have declined. At the same time, the former largest employer on the Islands, the Canadian Department of Defense, has closed down its operations with a loss of 500 jobs.

EXPLORATION AND PROJECT PLANNING

The Harmony Gold Property encompasses a 440 square kilometre mineral claim holding covering one of the world's premier epithermal gold systems. The Project includes the Specogna Deposit which is central to the property and contains a geological resource of over three million ounces of gold.

Since the discovery of the Specogna Deposit in 1970 over $40 million has been spent by former operators. Their work included trenching, drilling, underground bulk sampling, pilot mill testing, environmental programs and feasibility studies. This work led to a proposal in 1987 by City Resources (Canada) Limited to the British Columbia government to establish a 5,800 tonnes per day (2.1 million tonnes per year) processing facility involving pre-treatment of 31 million tonnes of open pit ore by nitric acid leaching (Arseno Process) followed by cyanidation and production of gold bullion.

In 1988, although City Resources (Canada) Limited was in the final stages of project certification, it decided not to continue with its proposal for financial reasons. Permitting proceedings were suspended.

In 1993, Misty Mountain Gold Limited initiated further planning of the Project after examining the extensive Project data base and determining that excellent potential for the development of an economically and environmentally sound gold mine existed. In 1995, Romulus Resources Ltd., an affiliate of British Columbia based Hunter Dickinson Inc., joint ventured the Harmony Gold Project, and then merged with Misty Mountain Gold Limited. The merger brought together a multi-disciplinary team of professionals with an excellent record of environmentally responsible mine development.

In 1995, Misty commenced a comprehensive, staged program to explore and develop the Project. This included a review of voluminous historical, technical and environmental data, and the completion of regionally extensive geochemical and airborne geophysical surveys. Late in 1995, a systematic diamond drilling program of the Specogna Deposit commenced, utilizing large diameter core holes spaced on a 20 metre by 20 metre grid pattern, oriented to the southeast and drilled at an angle of minus 45 degrees. In December 1996 this program was completed with a total of 34,627 metres drilled in 147 holes. The extensive data base generated from this detailed drill program provides a solid foundation for continuing mine development studies.

Current and historical drilling of the Specogna Deposit now totals 79,766 metres in 538 holes with 41,527 gold assays completed. The geological resource of the Specogna Deposit is 59 million tonnes with an average grade of 1.66 grams gold per tonne. It is still open to the northwest and to depth with excellent potential to develop additional reserves in these prime areas.

The Specogna Deposit represents the mid to upper levels of an epithermal hot-spring-type precious metals system. Gold is distributed throughout a hydrothermal breccia unit that parallels the northwest striking Specogna Fault for at least 700 metres and also throughout stockwork quartz veining and pervasively silicified sediments which extend laterally from the hydrothermal breccia for up to 210 metres. The Deposit dips moderately northeast for over 300 metres and forms a mushroom-shaped cross section perpendicular to the Specogna Fault. Approximately three percent sulphides, mainly pyrite and marcasite, are found disseminated throughout the Deposit. In addition to the relatively evenly distributed gold, bonanza gold shoots occur scattered throughout the Deposit. Examples of these high grade shoots include drill intercepts of 42 metres averaging 41 grams gold per tonne and 46 metres averaging 40 grams gold per tonne.

Currently, two exploration targets are being prepared for drill testing. The first target is potential bonanza gold deposits which may have developed at depths of more than 200 metres below the currently known Specogna Deposit. Plans for exploration drilling into this deeper, throttled portion of the epithermal system are being guided by careful structural analysis of the current data base. The second exciting target, located eight kilometres south of the Specogna Deposit, is contained in a topographic high with a gold-in-soil anomaly and an airborne geophysical response of the same magnitude and size as those of the Specogna Deposit. Coincidently, commercial logging is now underway in the area of this target and will facilitate exploration activities being planned by Misty for the summer season.

A wide spectrum of technical scoping studies and investigations of environmental considerations are being conducted to evaluate the Harmony Gold Project. These activities include: deposit modeling; resource estimates; various mine designs including underground and selective open pit methods; mineralogy; metallurgy; site facilities location; and infrastructure planning. These studies are scheduled to conclude in the next few months. Melis Engineering Ltd., Lakefield Research Limited and Oxidor Gold Corp. are utilizing conventional processes, including gravity recovery, flotation and bio-oxidation, as part of their scoping studies of metallurgical options. Based on representative samples, gold recoveries in the 75-80 percent range can be expected.

Comprehensive baseline environmental information, including fisheries, wildlife, climate, hydrology, water quality and vegetation is currently under review and will be supplemented by additional studies as project planning proceeds. These studies will establish the utmost integrity of the data base for future mine permitting. Testing is also underway to determine acid generating or consuming characteristics of potential mine products, rock and soil types. In addition, geotechnical specialists Knight Piesold Ltd. and environmental specialists Triton Environmental Consultants Ltd. are studying numerous potential sites for placement of milling, tailings and rock storage facilities. Environmental studies to date indicate that an environmentally sound project can be defined.

Preliminary mineable resources calculated by Independent Mining Consultants Inc., utilizing a 1.2 gram gold per tonne cut-off, include 31 million tonnes grading 2.05 grams gold per tonne (2,062,000 ounces of gold) plus a lower grade stockpile of 17 million tonnes averaging 0.99 grams gold per tonne (541,000 ounces of gold). One option under consideration provides for direct mill feed of 7,500 tonnes per day yielding gold production of 140,000 ounces per year for 10 years. Beyond this, additional gold production would come from reclaiming stockpiles. This particular mine design model bottoms in excellent mineralization which continues to plunge down dip.

Extensive metallurgical scoping studies are demonstrating that gold recoveries in the 75-80% range can be expected by utilizing conventional processes.

FINANCIAL

During 1996, Misty expended $5.84 million (1995 $2.54 million) on Harmony Gold Project exploration and planning work and a net of $0.55 million (1995 $0.57 million) on corporate operations, leaving a cash balance of $0.37 million and a working capital deficiency at year end.

To December 31, 1996 Misty's mineral property interests costs on the Harmony Gold Project was $22.82 million, of which $14.37 million relates to acquisition costs and $8.45 million to exploration and development costs. Significantly, the Company has available tax pools in excess of $60 million which may be utilized to reduce future taxable income.

In February 1996, Misty purchased for $450,000 the Net Smelter Returns Royalty held by BHP Minerals Canada Ltd. on claims which cover the Specogna Deposit. The Royalty was a sliding scale royalty varying from 0.5% to 5.0% over a gold price range from US $300 to US $800 per ounce. Misty Mountain Gold Limited now owns a 100% interest in all claims covering the Specogna Deposit area with no underlying interest whatsoever.

At December 31, 1996, there were 9,439,489 shares issued. In addition, there were outstanding, 303,650 share purchase options at prices averaging $3.86 per share and share purchase warrants totalling 1,667,750 at prices averaging $3.23 per share.

Subsequent to year end, up to April 30, 1997, 110,000 share purchase options and 12,500 share purchase warrants were exercised for total proceeds of $0.40 million.

PLANS AND OUTLOOK

The wide ranging scoping studies that are currently underway are providing important criteria to develop a base case for detailed mine planning studies. The scoping studies will be substantially completed in the next few months to provide a framework to develop a comprehensive Harmony Gold Project Prefeasibility Study. Consistent with the Company's policy, Misty Mountain Gold Limited will work closely with all stakeholders with specific attention to the First Nations community as well as using independent specialist consultants to address all aspects and options for Project advancement. In most areas, the analyses will be at feasibility level.

The Harmony Gold Project Prefeasibility Study is expected to be tabled during the first half of 1998 and will cost in the $8 million range. Large diameter core drilling for infill, geotechnical, environmental, metallurgy and process engineering will comprise a significant portion of the budget.

Concurrently with the advancement of the Harmony Project to Prefeasibility, two exploration targets are being prepared for drill testing this summer. The first target is potential bonanza deposits which may have developed at depths of more than 200 metres below the currently known Specogna Deposit in a deeper, throttled portion of the epithermal system. A second exciting target located 8 kilometres south of the Specogna Deposit is contained in a topographic high with a gold-in-soil anomaly and an airborne geophysical response of the same magnitude and size as those of the Specogna Deposit. Initial drill testing of these targets will cost in the $1 million range.

With the goal of minimizing dilution of shareholders' equity, Misty is currently in the process of arranging financing to complete its 1997 programs, including scoping studies, prefeasibility studies and the exploration drilling programs.

Successful completion of the Harmony Gold Project Prefeasibility Study is expected to lead to Misty Mountain Gold Limited's application for mine development certification which will commence the open environmental assessment review of the Harmony Project with government and all citizens of the region. Its successful completion would provide for the permitting of a significant and soundly planned gold mine development.

ACKNOWLEDGMENTS

The successful advancement of the Harmony Gold Project during 1996 was accomplished by a dedicated and cohesive team of skilled employees and consultants. From the outset of exploration and project planning at Harmony, this modern team of men and women is working hard to make the Project a model of responsible mineral resource development that will meet the economic, environmental and social requirements of the region. The Harmony team's spirit and tenacity, combined with a Project of this calibre is the formula for growth in the months ahead.

Our sincere gratitude is extended to our loyal shareholders. Without your support the Company's initial accomplishments would not have been achieved. We look forward to all shareholders participating in the rewards created from the very substantial gold resources being developed by Misty Mountain Gold Limited.

On Behalf of the Board

Robert G. Hunter
Chairman and Chief Executive Officer

Robert A. Dickinson
President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

(Stated in Canadian dollars)	December 31 1996	1995
ASSETS		
Current assets		
Cash and cash equivalents	$ 371,737	$ 4,265,639
Amounts receivable	180,410	138,491
	552,147	4,404,130
Investments and reclamation deposits (note 4)	513,875	398,875
Land and equipment (note 5)	65,843	80,698
Mineral property interests (note 6) (see schedule)	22,825,759	16,533,811
	$ 23,957,624	$ 21,417,514
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,093,017	$ 418,789
Shareholders' equity		
Share capital (note 7)	27,765,154	21,270,513
Special warrants	—	4,074,335
Deficit accumulated during the development stage	(4,900,547)	(4,346,123)
	22,864,607	20,998,725
Continuing operations (note 1)		
Subsequent events (note 12)		
	$ 23,957,624	$ 21,417,514

See accompanying notes to the consolidated financial statements.

Approved by the Board

Robert G. Hunter
Director

Robert A. Dickinson
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Stated in Canadian dollars)	*Inception to December 31, 1996*	*1996*	*Years ended December 31 1995*	*1994*
Revenue				
Interest	$ 387,124	$ 146,556	$ 127,942	$ 82,071
Expenses				
Amortization	31,792	16,594	10,198	—
Conference and travel	195,998	36,198	50,777	36,450
Consulting	239,003	3,378	6,548	9,734
Corporation capital tax	16,142	2,018	5,974	8,150
Legal, accounting and audit	710,040	90,738	128,019	72,778
Office and administration	582,372	111,143	129,561	95,914
Property investigations	157,575	336	—	157,239
Salaries and benefits	425,502	148,054	163,581	90,288
Shareholder communications	385,281	189,185	157,498	24,596
Trust and filing	218,377	103,336	42,030	10,139
	2,962,082	700,980	694,186	505,288
Loss before other item	(2,574,958)	(554,424)	(566,244)	(423,217)
Write-down of mineral property interests	(2,325,589)	—	—	(526,661)
Loss for the period	(4,900,547)	(554,424)	(566,244)	(949,878)
Deficit accumulated during the development stage, beginning of period	—	(4,346,123)	(3,779,879)	(2,830,001)
Deficit accumulated during the development stage, end of period	$ (4,900,547)	$ (4,900,547)	$ (4,346,123)	$ (3,779,879)
Loss per share		$ (0.06)	$ (0.12)	$ (0.25)
Weighted average number of shares outstanding		8,755,049	4,863,903	3,804,325

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Canadian dollars)	*Inception to December 31, 1996*	*Years ended December 31* 1996	1995	1994
Cash provided by (used for)				
Operations				
Loss for the period	$ (4,900,547)	$ (554,424)	$ (566,244)	$ (949,878)
Items not involving cash				
Amortization	31,792	16,594	10,198	—
Write-down of mineral property interests	2,325,589	—	—	526,661
Changes in non-cash operating working capital				
Amounts receivable	(138,032)	(41,919)	(75,881)	3,112
Accounts payable and accrued liabilities	1,080,713	674,228	365,825	(4,062)
	(1,600,485)	94,479	(266,102)	(424,167)
Financing				
Issuance of common shares for				
Cash, net of share issue costs	12,663,164	6,494,641	411,267	3,002,375
Mineral property interests	629,695	—	163,625	191,070
Business combination (note 3)	14,000,000	—	14,000,000	—
Settlement of debts	472,295	—	—	—
Special warrants	—	(4,074,335)	4,074,335	—
	27,765,154	2,420,306	18,649,227	3,193,445
Investments				
Land and equipment	(97,635)	(1,739)	(90,896)	—
Investments and reclamation deposits	(164,500)	(115,000)	(45,000)	—
Mineral property acquisition costs				
Common shares issued	(629,695)	—	(163,625)	(191,070)
Cash	(704,508)	(451,834)	(5,000)	(138,298)
Exploration and development costs	(10,200,964)	(5,840,114)	(2,545,499)	(82,928)
Business combination, net of cash (note 3)	(13,995,630)	—	(13,995,630)	—
	(25,792,932)	(6,408,687)	(16,845,650)	(412,296)
Increase (decrease) in cash and cash equivalents	371,737	(3,893,902)	1,537,475	2,356,982
Cash and cash equivalents, beginning of period	—	4,265,639	2,728,164	371,182
Cash and cash equivalents, end of period	$ 371,737	$ 371,737	$ 4,265,639	$ 2,728,164

See accompanying notes to the consolidated financial statements.

CONSOLIDATED SCHEDULES OF MINERAL PROPERTY INTERESTS

(Stated in Canadian dollars)	1996	1995	1994
			Years ended December 31
Acquisition costs			
Balance, beginning of year	$ 13,923,104	$ 138,298	$ —
Incurred during the year	451,834	168,625	329,368
Fair value of mineral property on business combination (note 3)	—	13,616,181	—
Write-down of mineral property interests	—	—	(191,070)
Balance, end of year	14,374,938	13,923,104	138,298
Exploration and development costs			
Assays and analysis	568,520	253,967	177
Drilling	2,753,523	621,037	—
Engineering	267,428	—	—
Environmental	418,131	93,364	—
Equipment rentals and leases	166,537	205,627	8,080
Freight	121,565	36,188	12,109
Geological	417,672	966,635	34,456
Graphics	44,838	38,399	14,253
Property fees and assessments	30,821	51,454	12,207
Site activities	910,214	176,533	—
Socioeconomic	23,462	—	—
Travel and accommodation	117,403	102,295	1,646
Incurred during the year	5,840,114	2,545,499	82,928
Balance, beginning of year	2,610,707	65,208	317,871
Write-down of mineral property interests	—	—	(335,591)
Balance, end of year	8,450,821	2,610,707	65,208
Mineral property interests	$ 22,825,759	$ 16,533,811	$ 203,506

See accompanying notes to the consolidated financial statements.

1. CONTINUING OPERATIONS

Misty Mountain Gold Limited (the "Company") is incorporated under the Company Act of British Columbia and its principal business activity is the exploration and development of mineral properties, with its principal mineral property comprising various claims on Graham Island, British Columbia (the "Harmony Gold Property") (note 6(a)).

At December 31, 1996, the Company had a working capital deficiency of approximately $541,000 (see note 12). The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development of the mineral properties, and upon future profitable production or proceeds from the disposition of the mineral property interests.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which, except as disclosed in note 11, are also in accordance in all material respects with those in the United States. For United States reporting purposes, the Company is considered to be in the development stage and the accompanying financial statements are those of a development stage company.

The consolidated financial statements as at and for the years ended December 31, 1996 and 1995, include the accounts of the Company and its wholly-owned subsidiaries Romulus Resources Ltd. ("Romulus"), which was wound up during fiscal 1996, and CRC Finance Inc. All significant intercompany accounts and transactions have been eliminated.

Effective November 6, 1995, the Company completed the acquisition of 100% of the outstanding common shares of Romulus. As Romulus shareholders obtained control of the Company through the exchange of their shares of Romulus, the acquisition of Romulus has been accounted for as a reverse takeover. Consequently, the consolidated statements of operations and deficit and cash flows reflect the results from operations and cash flows of Romulus, the legal subsidiary, for the year ended December 31, 1995, combined with those of Misty Mountain Gold Limited, the legal parent, from November 6, 1995, in accordance with generally accepted accounting principles for reverse takeovers. In addition, the comparative figures presented are those of Romulus, the legal subsidiary.

In these notes to consolidated financial statements, the corporate entity Misty Mountain Gold Limited, prior to the business combination, is referred to as "Old Misty" and after completion of the share consolidation and business combination, is referred to as "New Misty".

(b) **Investments and reclamation deposits**

Investments capable of reasonably prompt liquidation are carried at the lower of cost and quoted market value. Investments where the Company has the ability to exercise significant influence are accounted for on the equity basis where the investment is initially recorded at cost and subsequently adjusted for the Company's share of the income or loss and capital transactions of the investee, less provision, if any, for permanent impairment in value. Reclamation deposits are recorded at cost.

(c) **Land and equipment**

Land is recorded at cost. Equipment is recorded at cost less accumulated amortization. Amortization is provided using the declining balance method at annual rates of between 20% and 30%.

(d) **Mineral property interests**

Mineral property acquisition costs and related exploration and development costs are deferred until the property is placed into production, sold or abandoned. These costs will be amortized over the estimated life of the property following commencement of commercial production or written off if the property is sold, allowed to lapse or abandoned.

Mineral property acquisition costs include the cash consideration and the fair market value of common shares issued for mineral property interests. A property acquired under an option agreement or by joint venture, where payments are made at the sole discretion of the Company, is recorded in the accounts at the time of payment.

Administrative expenditures are expensed in the period incurred.

(e) **Share capital**

Common shares issued for non-monetary consideration are recorded at the fair market value based upon the trading price of the shares on the date of the agreement to issue the shares.

The proceeds from common shares issued pursuant to flow-through share financing agreements are credited to share capital and the tax benefits of these exploration expenditures are transferred to the purchaser of the shares.

Costs incurred to issue common shares are deducted from share capital.

(f) **Loss per share**

Loss per share has been calculated using the weighted average number of common shares outstanding during the year, after restating prior years comparative amounts to reflect the weighted average number of common shares outstanding as if the exchange of Romulus shares into shares of Old Misty (note 3) took place on inception. Fully diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive.

(g) **Use of estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, reclamation obligations and rates for amortization. Actual results could differ from those estimates.

(h) **Comparative figures**

Certain of the prior years' comparative figures have been reclassified to conform to the presentation adopted for the current year.

3. BUSINESS COMBINATION

Effective November 6, 1995, the Old Misty and Romulus received all of the necessary approvals to complete its agreements to merge. The Company issued 4,343,158 post-consolidation common shares in consideration for all of the issued and outstanding common shares of Romulus on the basis of 0.425 post-consolidation common shares of the Company for each common share of Romulus (note 7(b)). As the former shareholders of Romulus obtained control of the Company through the share exchange, this transaction has been accounted for as a reverse takeover and the purchase method of accounting has been applied. Under reverse takeover accounting, Romulus is considered to have acquired Old Misty with the results of Old Misty's operations included in the consolidated financial statements from the date of acquisition. Romulus is considered the continuing entity and consequently, the comparative figures are those of Romulus.

The acquisition has been recorded at the estimated fair value of the consideration given which, under reverse takeover accounting, is the fair value of the total number of shares of Romulus that would have had to be issued in order to provide the same percentage of ownership of the combined company to the shareholders of Old Misty as they have in the combined company as a result of the reverse takeover. The acquisition details are as follows:

Net assets acquired, at fair values	
Cash	$ 4,370
Net working capital	30,074
Investments and reclamation deposits	349,375
Mineral property interests	13,616,181
	$ 14,000,000
Consideration given for net assets acquired	
Common shares issued	$ 14,000,000

As the continuing entity is deemed to be Romulus, share capital of Old Misty totalling $54,316,237 has been eliminated as a result of accounting for this combination as a reverse takeover (note 7(b)).

The consolidated statements of operations and deficit and cash flows reflect the results of operations and cash flows of Romulus, the legal subsidiary, for the years ended December 31, 1995 onwards, combined with those of New Misty, the legal parent, from November 6, 1995, being the effective date of the acquisition.

Under reverse takeover accounting principles and the purchase method of accounting, the results of operations of Old Misty are included in the consolidated financial statements of the Company only from the effective date of the acquisition. Accordingly, supplementary financial information presenting the results of operations and cash flows of Old Misty for the period from July 1, 1995, being the date following the most recent audited balance sheet of Old Misty, to November 6, 1995, being immediately prior to the effective date of the combination, is presented below.

(a) **Consolidated Statement of Operations**

	Period from July 1, 1995 to November 6, 1995
Interest revenue	$ 3,221
Expenses	
Amortization	6,718
Conference and travel	14,306
Legal, accounting and audit	135,704
Office and administration	15,373
Salaries and benefits	31,061
Shareholder communication	51,793
Trust and filing	26,409
	281,364
Loss for the period	$ (278,143)

(b) **Consolidated Statement of Cash Flows**

		Period from July 1, 1995 to November 6, 1995
Cash provided by (used for)		
Operations		
Loss for the period	$	(278,143)
Amortization, an item not involving cash		6,718
Changes in non-cash operating working capital		
Amounts receivable		(16,633)
Accounts payable and accrued liabilities		(156,128)
		(444,186)
Financing		
Common shares issued for cash, net of issue costs		328,494
Investments		
Investments and reclamation deposits		24,804
Mineral property interests		5,445
		30,249
Decrease in cash and cash equivalents		(85,443)
Cash and cash equivalents, beginning of period		89,813
Cash and cash equivalents, end of period	$	4,370

(c) **Consolidated Schedule of Mineral Property Interests**

		Period from July 1, 1995 to November 6, 1995
Exploration and development costs (recoveries)		
Geological and geophysical	$	(6,784)
Graphics		588
Travel and accommodation		751
Net recoveries for the period	$	(5,445)

4. INVESTMENTS AND RECLAMATION DEPOSITS

		1996		*1995*
Investment in El Misti Gold Limited (a)	$	329,374	$	329,374
Reclamation deposits		184,500		69,500
Other investments		1		1
Investments and reclamation deposits	$	513,875	$	398,875

(a) **Investment in El Misti Gold Limited**

During 1995 Old Misty made advances and incurred expenditures totalling $329,374 with respect to the acquisition of and exploration on certain mineral properties located in Peru (the "Peruvian Properties"). In May 1995 Old Misty determined that it would not fund additional expenditures on the Peruvian Properties and as a result, Old Misty's President agreed to assume responsibility to arrange funding for the Peruvian Properties from sources other than Old Misty and that the amounts paid or advanced on behalf of the Peruvian operations will be treated as share capital of a new company.

Pursuant to an assignment agreement dated September 30, 1995, in November 1995 Old Misty transferred its rights to the Peruvian Properties to El Misti Gold Ltd. in exchange for 1,317,500 common shares of El Misti Gold Ltd. at an agreed price of $0.25 per share and a 1% net smelter returns royalty, to a maximum of $2 million, from revenues earned from the Peruvian Properties. In addition, Old Misty granted an option to certain affiliates of Old Misty's President and Chairman, who continue to be directors of the Company, to purchase the shares of El Misti Gold Ltd. held by the Company at a price of $0.375 per share until October 30, 1997.

On June 3, 1996, Consolidated Minerva Gold Mines Ltd. ("Minerva") acquired El Misti Gold Ltd., and Minerva shareholders approved a name change to El Misti Gold Limited. As part of this transaction, the Company's previous share position of 1,317,500 common shares in El Misti Gold Ltd. was exchanged for 1,088,153 common shares of El Misti Gold Limited. In addition, the option price was changed to $0.50 per share on the exchange of the shares to El Misti Gold Limited. At December 31, 1996, the quoted market value of the shares of El Misti Gold Limited held by the Company was approximately $4.75 per share.

5. LAND AND EQUIPMENT

		Cost		Accumulated Amortization		Net Book Value 1996		Net Book Value 1995
Land	$	8,488	$	—	$	8,488	$	8,488
Automotive		21,368		8,734		12,634		18,049
Site equipment		62,780		18,059		44,721		54,161
Land and equipment	$	92,636	$	26,793	$	65,843	$	80,698

6. MINERAL PROPERTY INTERESTS

	1996	1995
Harmony Gold Property	$ 22,825,759	$ 16,533,811

(a) **Harmony Gold Property**

The Harmony Gold Property (the "Property") is located in the Skeena Mining Division on Graham Island, Queen Charlotte Islands – Haida Gwaii, British Columbia. The Company's initial 100% interest in the Property was acquired by Old Misty in 1977 for $450,000 cash and 300,000 shares of the Company.

During 1979 Old Misty sold a 50% interest in the Property which it subsequently reacquired in 1987 for total costs of $5,400,000, the issue of 1,500,000 common shares of the Company, and a third party net smelter returns royalty graduated from 0.5% to 5% covering a gold price range from U.S. $300 to U.S. $800 per ounce.

In 1990 and 1991 project plans were considered, but as a result of the then current economic conditions and the results of an evaluation of the project plans, the Company elected not to proceed with further development at that time, and reclamation and clean-up work of the site was undertaken. Old Misty, accordingly, wrote down its accumulated acquisition costs and deferred exploration and development costs incurred on the Property by approximately $30,300,000 to $1,000 in 1991 and expensed the minimal costs incurred thereafter.

During 1993 and 1994 a group of investors reviewed technical information on the Property and concluded that, with an alternative exploration and mining approach, combined with a restructuring of Old Misty's debt and capital structure, it could be possible to economically develop the Property. Accordingly, Old Misty recommenced deferring exploration and development costs incurred during that period.

In November 1994 Old Misty granted Romulus an option to earn up to a 50% interest in the Property by acting as operator, making certain option payments and expending up to $15 million on exploration and development costs on the Property prior to June 30, 2006. To November 6, 1995, being the effective date of the business combination of Old Misty and Romulus (note 3), Romulus incurred approximately $2 million in exploration and development costs, and acquired additional claims in the region by staking, acquisition through the issuance of 100,000 common shares of Romulus, and entering into an option agreement.

During 1996, the Company purchased the third party net smelter returns royalty on the Property for $450,000. The Company continues to maintain all claims in good standing.

(b) **Brenda Property**

In 1993, Romulus entered into agreements to earn up to a 100% interest in twenty mineral claims located in the Omineca Mining Division of British Columbia. During 1994, Romulus terminated its agreements based on insufficient evidence to warrant further exploration and wrote-off all related costs.

7. SHARE CAPITAL

(a) **Authorized**

The Company's authorized share capital consists of 100,000,000 common shares without par value.

During 1995, Old Misty consolidated its authorized share capital on a 10 old for 1 new basis and subsequently increased its authorized share capital from 10,000,000 common shares without par value to 100,000,000 common shares without par value.

(b) **Issued and outstanding**

A continuity of the Company's issued and outstanding share capital, commencing with Romulus from incorporation on July 9, 1969, to November 6, 1995, being the effective date of the reverse takeover, is as follows:

	Number of shares	*Amount*
Romulus		
Issued during		
1969 to 1972 Cash	1,171,302	$ 143,196
1969 to 1972 Mineral property interests	750,000	75,000
1973 Cash	174,900	43,725
1974 Cash	88,100	17,590
1981 Cancellation of escrow shares	(750,000)	—
	1,434,302	279,511
Consolidation of shares on a six old for one new basis	(1,195,252)	—
Romulus balance, December 31, 1981	239,050	279,511
Issued during		
1988 Cash	1,250,000	82,500
1988 Settlement of debts	1,297,000	324,250
1989 Cash	148,000	40,200
1990 Cash, net of share issue costs	892,000	495,363
1990 Mineral property interests	150,000	87,500
1991 On settlement of debts	929,634	148,045
1992 Cash	845,000	829,000
1992 Mineral property interests	50,000	62,500
1993 Cash	1,056,000	1,056,000
1993 Finders' fees	47,342	47,307
1993 Mineral property interests	50,000	50,000
Romulus balance, December 31, 1993	6,954,026	3,502,176
Issued during the year for		
Cash, net of share issue costs	2,731,000	2,951,750
Mineral property interests	150,000	150,000
Finders' fees	65,342	91,695
Romulus balance, December 31, 1994	9,900,368 (i)	6,695,621
Issued during the period January 1 to November 6, 1995, for		
Cash on exercise of share purchase options	10,000	17,500
Cash on exercise of share purchase warrants	258,600	389,067
Mineral property interests	50,000	85,000
Romulus balance, November 6, 1995, prior to the arrangement with Old Misty	10,218,968	7,187,188
Exchanged into post-consolidation Misty common shares at 0.425 shares for each Romulus share (note 3)	(5,875,810)	—
Old Misty shares held by Romulus shareholders, at time of business combination	4,343,158	$ 7,187,188

(i) Equivalent to 4,207,656 Old Misty shares after business combination

Old Misty		
Old Misty balance, June 30, 1995	32,395,693	$ 61,174,931
Issued during the period July 1 to November 6, 1995, for		
Cash, net of share issue costs	1,000,000	328,494
Consolidation of shares on a 10 old for 1 new basis	(30,056,124)	—
Old Misty balance, November 6, 1995, prior to arrangement with Romulus	3,339,569	61,503,425
Adjustments to record business combination		
Reduction in the book value of Old Misty's share capital to that of Romulus (note 3)	—	(54,316,237)
	3,339,569	7,187,188
Shares of New Misty issued to acquire shares of Romulus (above), recorded at fair value (note 3)	4,343,158	14,000,000

	Number of shares	Amount
New Misty balance November 6, 1995, after business combination	7,682,727	21,187,188
Issued during the period November 7 to December 31, 1995 for		
Cash on exercise of share purchase options	10,000	4,700
Mineral property interests	21,250	78,625
New Misty balance, December 31, 1995	7,713,977	21,270,513
Issued during the year for		
Cash on exercise of share purchase options	451,612	1,621,634
Cash by way of private placement at $4.00, net of issue costs (i)	1,053,325	3,990,707
Cash on exercise of share purchase warrants	220,575	882,300
New Misty balance, December 31, 1996	9,439,489	$ 27,765,154

(i) During December 1995, the Company received private placement subscriptions for 1,053,325 special warrants at $4.00 per special warrant for a total offering of $4,213,300. In connection with this offering, the Company agreed to pay agents' fees totalling $138,965 and use its best efforts to obtain receipts for a prospectus to qualify for distribution of the common shares and share purchase warrants to be issued on exercise of the special warrants.

The 1,053,325 special warrants were composed of 664,075 special warrants convertible into one common share and one non-transferable share purchase warrant that entitles the holder to purchase one additional common share at $4.00 per share; 326,750 flow-through special warrants which are convertible into one flow-through common share at $4.00 per share and one non-transferable share purchase warrant with the same terms as aforementioned; and 62,500 special warrants convertible into flow-through shares only.

In 1996 the Company received exchange approvals for this private placement, completed a prospectus to qualify the common shares and share purchase warrants for issuance and issued the common shares and share purchase warrants.

(c) **Share purchase options**

Share purchase options outstanding at December 31, 1996, are as follows:

Expiry date	*Number of shares*		*Price per share*
January 22, 1997	110,000	$	3.20
April 22, 1997	7,500	$	6.20
May 27, 1997	7,500	$	5.20
November 16, 1997	151,650	$	4.00
December 13, 1998	27,000	$	4.75
Total share purchase options	303,650		

During 1996, the Company granted 27,000 share purchase options exercisable at $4.75 per share to December 13, 1998 and issued 451,612 common shares on exercise of 451,612 share purchase options at prices between $0.47 and $4.11 per share.

(d) **Share purchase warrants**

Share purchase warrants outstanding at December 31, 1996, are as follows:

Expiry date	*Number of shares*		*Price per share*
May 27, 1997	762,750	$	4.00
July 6, 1997	50,000	$	4.00
December 15, 1998	855,000	$	2.50
Total share purchase warrants	1,667,750		

During 1996, the Company issued 983,325 share purchase warrants exercisable at $4.00 per share until May 27, 1997, of which 220,575 were exercised and converted into 220,575 common shares, and 100,000 share purchase warrants exercisable at $6.00 per share expired unexercised.

8. FINANCIAL INSTRUMENTS

Except as disclosed elsewhere in the financial statements for investments, in all material respects, at December 31, 1996, and 1995, the carrying amounts for all of the Company's financial instruments approximated fair value, due to their short term nature.

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in note 4(a), at December 31, 1996, amounts receivable includes $Nil (1995 - $30,000) due from, and accounts payable and accrued liabilities includes a total of $160,854 (1995 - $94,662) (representing actual expense reimbursements at cost) due to, companies with common directors and officers.

10. INCOME TAXES

To December 31, 1996, the Company has available tax pools and operating losses for tax purposes in excess of $60,000,000 which may be carried forward and utilized to reduce future taxable income generated from the Harmony Gold Property. The potential income tax benefits related to these items have not been reflected in the accounts as there is no virtual certainty that the benefits will be realized. These amounts do not include certain of the Company's exploration and development expenditures renounced to investors under flow-through share financing arrangements.

11. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As disclosed in note 2(a), these financial statements have been prepared in accordance with Canadian generally accepted accounting principles which conform in all material respects with those of the United States, except for accounting for income taxes and disclosure in the statements of cash flows.

Under the asset and liability method of United States Statement of Financial Accounting Standards No. 109 ("SFAS 109"), deferred income tax assets and liabilities are measured using enacted tax rates for the future income tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. There is no effect of adopting the provisions of SFAS 109 on the Company's financial statements as the recognition criteria for deferred tax assets has not been met.

Under Canadian generally accepted accounting principles, non-cash transactions are included in the determination of financing and investing activities in the statements of cash flows. Generally accepted accounting principles in the United States require exclusion of such activities from the determination of financing and investing activities and require the cash amount of interest and income taxes paid to be disclosed in the statement. As a result, under United States generally accepted accounting principles, the values attributable to shares issued for mineral property interests and the business combination would be excluded from financing and investing activities in the statement. In addition, the Company did not pay any interest or income taxes during the years ended December 31, 1996, 1995 and 1994.

12. SUBSEQUENT EVENTS

Subsequent to December 31, 1996:

(a) 110,000 share purchase options were exercised at $3.20, and 12,500 warrants were exercised at $4.00 for total proceeds of $402,000.

(b) 8,000 share purchase options were granted to employees at $5.15 per common share, expiring January 17, 1999, and 40,000 share purchase options were granted to employees at $4.90 per common share, expiring February 3, 2001.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Misty Mountain Gold Limited as at December 31, 1996 and 1995 and the consolidated statements of operations and deficit accumulated during the development stage and cash flows for the years ended December 31, 1996 and 1995, and from inception to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996, and 1995 and the results of its operations and its cash flows for the years ended December 31, 1996 and 1995, and from inception to December 31, 1996 in accordance with generally accepted accounting principles in Canada. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

The financial statements for the year ended December 31, 1994 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 17, 1995.

KPMG

Chartered Accountants

Vancouver, Canada
May 7, 1997

CORPORATE INFORMATION

OFFICERS

Robert G. Hunter
Chairman and Chief Executive Officer

Raymond J. Soper
Vice-Chairman

Robert A. Dickinson
President and Chief Financial Officer

Jeffrey R. Mason
Secretary and Treasurer

DIRECTORS

David J. Copeland
Scott D. Cousens
Robert A. Dickinson
Robert G. Hunter
Jeffrey R. Mason
Aziz H. Shariff
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Raymond J. Soper
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Canada V6C 3A6

LISTED

The Toronto Stock Exchange (MGL)
Vancouver Stock Exchange (MGL)
NASDAQ (MGLCF)

CAPITALIZATION

(as at April 30, 1997)

Common authorized	100,000,000
Issued Shares	9,561,989
Fully Diluted	11,446,389

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Misty Mountain Gold Limited will be held at 2:00 pm on June 23, 1997, Boardroom, Suite 930 – 800 West Pender Street, Vancouver, British Columbia V6C 2V6.

FOR FURTHER INFORMATION CONTACT

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